

PUBLIC REPORT OF THE MARKET CONDUCT EXAMINATION
OF THE CLAIMS PRACTICES OF THE

UNITRIN DIRECT INSURANCE COMPANY
NAIC # 10226 CDI # 4658-1

AS OF JANUARY 31, 2003

STATE OF CALIFORNIA



DEPARTMENT OF INSURANCE
MARKET CONDUCT DIVISION
FIELD CLAIMS BUREAU

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CALIFORNIA DEPARTMENT OF INSURANCE

Consumer Services and Market Conduct Branch
Field Claims Bureau, 11th Floor
300 South Spring Street
Los Angeles, CA 90013



January 15, 2004

The Honorable John Garamendi
Insurance Commissioner
State of California
45 Fremont Street
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims practices and procedures in California of:

Unitrin Direct Insurance Company

NAIC #10226

Hereinafter referred to as the Company.

This report is made available for public inspection and is published on the California Department of Insurance web site (www.insurance.ca.gov) pursuant to California Insurance Code section 12938.

SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Company during the period February 1, 2002 through January 31, 2003. The examination was made to discover, in general, if these and other operating procedures of the Company conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), the California Vehicle Code (CVC) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. Any alleged violations of other relevant laws which may result from this examination will be included in a separate report which will remain confidential subject to the provisions of CIC Section 735.5.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was conducted at the offices of the Unitrin Direct Insurance Company in Vista, California.

The report is written in a “report by exception” format. The report does not present a comprehensive overview of the subject insurer’s practices. The report contains only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer’s proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The examiners reviewed files drawn from the category of Closed Claims for the period February 1, 2002 through January 31, 2003, commonly referred to as the “review period.” The examiners reviewed 237 Unitrin Direct Insurance Company closed claim files. The examiners cited 29 claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03 within the scope of this report. Further details with respect to the files reviewed and alleged violations are provided in the following table and summary.

Unitrin Direct Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Collision	391	58	9
Comprehensive	120	43	5
Property Damage	262	54	8
Bodily Injury	56	31	0
Uninsured Motorist Property Damage	49	28	3
Uninsured Motorist Bodily Injury	19	15	1
Medical Payment	9	8	3
TOTALS	906	237	29

TABLE OF TOTAL CITATIONS		
Citation	Description	Unitrin Direct Insurance Company
CCR §2695.7(b)(1)	The Company failed to provide written basis for the denial of the claim and shall provide a statement listing all bases for such rejection or denial.	5
CCR §2695.8(e)(3)	The Company required a claimant to travel an unreasonable distance either to inspect a replacement automobile, to conduct an inspection of the vehicle, to obtain a repair estimate or to have the automobile repaired at a specific repair shop.	4
CCR §2695.8(k)	The Company failed to document the basis for betterment, depreciation or salvage. The basis for any adjustment shall be fully explained to the claimant in writing.	4
CCR §790.03(h)(5)	The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.	4
CCR §2695.7(b)(3)	The Company failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance.	3
CCR §2695.8(b)(1)	The Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile.	2
CCR §2695.8(f)	The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based.	2
CCR §2695.3(a)	The Company's claim file failed to contain all documents, notes and work papers which pertain to the claim.	1
CCR §2695.5(b)	The Company failed to respond to communications within fifteen calendar days.	1
CCR §2695.8(b)(1)(C)	The Company failed to document the determination of value. Any deductions from value, including deduction for salvage, must be discernible, measurable, itemized, and specified as well as be appropriate in dollar amount.	1
CCR §2695.8(e)(2)	The Company directed, suggested or recommended that an automobile be repaired at a specific repair shop, with out, (A) the referral being expressly requested by the claimant; or (B) the claimant must be informed in writing of the right to select the repair facility.	1
CIC §790.03(h)(3)	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under its insurance policies. The Company failed to conduct an adequate investigation.	1
Total Citations		29

SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS AND TOTAL RECOVERIES

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. As a result of the examination, the total amount of money returned to claimants was \$238.59 within the scope of this report.

1. **The Company failed to provide a written basis for the denial of the claim.** In five instances, the Company failed to provide a written basis for the denial of the claim and shall provide a statement listing all bases for such rejection or denial. The Department alleges these acts to be in violation of CCR §2695.7(b)(1).

Summary of Company Response: The Company states that the referenced violations involved the Company not sending copies of the Medical Payments Coverage reduction statements (EOBs) to insureds when reduced payments were made by Company directly to the medical providers. The Company states that the medical provider's billing for services rendered was reduced to amounts that were usual and customary to the local area, but Company failed to obtain an actual agreement with the subject provider approving the reduced amount. It is the Department's position that without an affirmative agreement between the medical provider and Company, the insured's obligation for the unpaid amount was ongoing. As of the end of May 2003, the Company had conducted training of all responsible staff thereupon instructing them to notify an insured, in writing, when Company reduces a medical provider's billing such that the insured may thereafter advise the Company should the Medical Provider attempt to bill the insured for the difference between the billing and the amount paid by Company. The Company warrants, in writing, to resolve all billing discrepancies directly with the medical providers.

2. **The Company required a claimant to travel an unreasonable distance either to inspect a replacement automobile, to conduct an inspection of the vehicle, to obtain a repair estimate or to have the automobile repaired at a specific repair shop.** In four instances, the Company required a claimant to travel an unreasonable distance either to inspect a replacement automobile, to conduct an inspection of the vehicle, to obtain a repair estimate or to have the automobile repaired at a specific repair shop. The Department alleges these acts to be in violation of CCR §2695.8(e)(3).

Summary of Company Response: The Company acknowledges these errors and has modified its total loss procedures to ensure that only those vehicles located within the claimant's local market area shall be utilized when Company is determining the value of damaged vehicle. Further, Company has communicated its new procedures with all associated vendors.

3. The Company failed to document the basis of betterment, depreciation or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. In four instances, the Company failed to document the basis of betterment, depreciation or salvage. The basis for any adjustment shall be fully explained to the claimant in writing. The Department alleges these acts to be in violation of CCR §2695.8(k).

Summary of Company Response: The Company acknowledges these errors as oversights by claims adjusters adverse to established Company policies and procedures. While betterment was documented in the written estimates provided to the insureds, the adjusters failed to document their oral communication with the insured wherein all deductions, including betterment, are to be explained. The Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.

4. The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. In four instances, the Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear. The Department alleges these acts to be in violation of CIC §790.03(h)(5).

Summary of Company Response: The Company acknowledges that the subject violations were caused entirely due to Company's utilization of comparable vehicles that were located outside the claimant's local market area when determining the value of a total loss vehicle. The Company has modified its total loss procedures to ensure the use of only those vehicles located within the claimant's local market area. Further, the Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.

5. The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. In three instances, the Company failed to include a statement in their claim denial that should the claimant believe that the claim had been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts to be in violation of CCR §2695.7(b)(3).

Summary of Company Response: The Company acknowledges these errors as oversights by claims adjusters adverse to established Company policies and procedures. All applicable letters generated by the Company's system have been updated to include the Department's name, address and telephone number. This modified form has been reviewed by the Department, as part of this examination, to ensure compliance.

6. The Company failed to include, in the settlement, all applicable taxes, license fees and other fees incident to transfer of evidence of ownership of the comparable automobile. In two instances, the Company failed to include in the settlement, all applicable taxes, license fees and any other fees incident to transfer of evidence of ownership of the comparable automobile. The Department alleges these acts to be in violation of CCR §2695.8(b)(1).

Summary of Company Response: The Company acknowledges these two (2) violations as oversights by claims adjusters adverse to established Company policies and procedures. Immediately upon notice of these internal oversights, the Company issued reimbursement checks to each insured totaling \$44.28 and \$99.21. The Company has employed the services of a new vendor to calculate the appropriate state and local taxes and other fees associated with total loss settlements evaluations.

7. The Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. In two instances, the Company failed to supply the claimant with a copy of the estimate upon which the settlement is based. The Department alleges these acts to be in violation of CCR §2695.8(f).

Summary of Company Response: The Company acknowledges these violations as oversights by claims adjusters adverse to established Company policies and procedures. Immediately upon being put on notice of these internal oversights, the Company mailed the subject vehicular repair estimates to the insured. The Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.

8. The Company failed to properly document claim files. In one instance, the Company failed to maintain claim data that was accessible, legible and retrievable for examination. The Department alleges this act to be in violation of CCR §2695.3(a).

Summary of Company Response: The Company acknowledges this violation as an oversight by the claims adjuster adverse to established Company policies and procedures. In this one instance, a copy of the DMV notification was not maintained within the claim file. However, the claim notes indicated that the DMV notification letter had been issued and the Company thereafter confirmed that the DMV was, in fact, in receipt of Company's notice of vehicular total loss.

9. The Company failed to respond to communications within fifteen calendar days. In one instance, the Company failed to respond to communications within fifteen calendar days. The Department alleges this act to be in violation of CCR §2695.5(b).

Summary of Company Response: The Company acknowledges this violation as an oversight by the claims adjuster adverse to established Company policies and procedures. In this instance, the Company issued a responsive communication to the claimant immediately upon becoming aware of the internal oversight. The Company issued notification letters to each insured. The Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.

10. The Company failed to document the determination of value. In one instance, the Company failed to document the determination of value. Any deductions from value, including deductions for salvage, must be discernible, measurable itemized, and specified as well as be appropriate in dollar amount. The Department alleges this act to be in violation of CCR §2695.8(b)(1)(C).

Summary of Company Response: The Company acknowledges this violation as an oversight by the claims adjuster adverse to established Company policies and procedures. The Company has modified its total loss procedures to ensure the use of only those vehicles located within the claimant's local market area. Further, the Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.

11. The Company directed, suggested or recommended that an automobile be repaired at a specific repair shop. In one instance, the Company directed, suggested or recommended that an automobile be repaired at a specific repair shop, without, (A) the referral being expressly requested by the claimant or, (B) the claimant being informed in writing of the right to select the repair facility. The Department alleges this act to be in violation of CCR §2695.8(e)(2).

Summary of Company Response: The Company acknowledges that the subject violation was the result of an oversight by the claims adjuster adverse to established Company policies and procedures. In an effort to promote a prompt and quality service, Company employed a glass company for comprehensive losses. In this instance, the cost of the insured repair shop was reduced to the amount that the employed glass company would pay. Insured has been informed that she may select a glass repair shop of her choice.

12. The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims. The Company failed to issue notices or issue notices timely or issue notices that included all required benefit information. In one instance, the Company failed to adhere to standard of prompt investigation and processing of claims. The Department alleges this act to be in violation of CIC. §790.03(h)(3).

Summary of Company Response: The Company acknowledges that the subject violation was caused entirely due to Company's utilization of comparable vehicles that were located outside the claimant's local market area when determining the value of a total loss vehicle. The Company has modified its total loss procedures to ensure the use of only those vehicles located within the claimant's local market area. Further, the Company has conducted training seminars for all responsible staff regarding the Fair Claims Settlement Practices to ensure future compliance in this area.